

**CITY OF SHELDON**

**INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

CITY OF SHELDON  
TABLE OF CONTENTS

		<u>Page No.</u>
Officials .....		1
Independent Auditors' Report .....		2 - 3
Basic Financial Statements:		
	<u>Exhibit</u>	
Statement of Activities and Net Assets - Cash Basis .....	A	4 - 5
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Governmental Funds .....	B	6 - 9
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets - Governmental Funds .....	C	10
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Proprietary Funds .....	D	11 - 12
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets - Enterprise Funds .....	E	13
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Fiduciary Fund .....	F	14
Notes to Financial Statements .....		15 - 25
	<u>Schedule</u>	
Supplementary Information:		
Combining Schedule of Receipts, Disbursements, and Changes in Cash Balances - All Nonmajor Governmental Funds .....	1	26 - 27
Schedule of Indebtedness .....	2	28 - 29
Bond and Note Maturities .....	3	30 - 31
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental and Proprietary Funds .....	4	32 - 33
Notes to Schedule 4 - Budgetary Reporting .....		34
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds .....	5	35 - 36
Capital Assets Activity .....	6	37 - 38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....		39 - 40
Schedule of Findings .....		41 - 43

# CITY OF SHELDON

## CITY OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Katricia Meendering	Mayor	January 2014
Mark Postma	Council Member (To January 1, 2012)	
Brad Hindt	Council Member	January 2016
Dave Popkes	Council Member	January 2014
Ron Rensink	Council Member	January 2016
Duane Seehusen	Council Member	January 2014
Greg Geels	Council Member (From January 1, 2012)	January 2016
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	
Micah Schreurs	Attorney	
Skip Tanner	Airport Commissioner	July 2014
Glen Zylstra	Airport Commissioner	July 2015
Steve Drenkow	Airport Commissioner	July 2014
Rob Dixon	Airport Commissioner	July 2015
Scott Meinecke	Airport Commissioner	July 2012
Holly Hamill-Kamstra	Park and Recreation Commissioner	July 2014
Jodi Radke	Park and Recreation Commissioner	July 2015
Toni Bart	Park and Recreation Commissioner	July 2012
Krissa Jacobsma	Park and Recreation Commissioner	July 2015
Mike Oldenkamp	Park and Recreation Commissioner	July 2014
Ed Stephens	Library Trustee	July 2015
Mildred Voss	Library Trustee	July 2015
Jane Cain	Library Trustee	July 2016
Darlene Krier	Library Trustee	July 2012
Joel Gustafson	Library Trustee	July 2013
Mike McCuddin	Library Trustee	July 2017
Judy Honkomp	Library Trustee	July 2013
Ron Plum	Museum Trustee	July 2014
Marlene Pape	Museum Trustee	July 2013
Joe Wildeman	Museum Trustee	July 2013
Cindy Runger	Museum Trustee	July 2012
Donna Hoadley	Museum Trustee	July 2014
Mark Poyzer	Museum Trustee	July 2014
Leon Kleinwolterink	Museum Trustee	July 2013
Pete Hamill	Recreational Trails Board	July 2013
Keith Rolston	Recreational Trails Board	July 2013
Phil Grove	Recreational Trails Board	July 2013
Fred Stratman	Recreational Trails Board	July 2012
Jeanne Lichty	Recreational Trails Board	July 2012
Jan Neel	Recreational Trails Board	July 2012
Stan Ten Kley	Recreational Trails Board	July 2014
Donna Brinkman	Recreational Trails Board	July 2014
Shirley Letner	Recreational Trails Board	July 2014

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351-0187  
Phone 712-338-2488  
FAX 712-338-2510

---

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon as of June 30, 2012 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other information included in Schedules 4 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Winter, Stone & Co., LLP*

January 7, 2013

## **BASIC FINANCIAL STATEMENTS**

CITY OF SHELDON  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

			<u>Program Receipts</u>
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety .....	\$1,097,709	\$ 295,690	\$ 13,395
Public works .....	694,140	109,265	505,222
Health and social services .....	15,500		
Culture and recreation .....	526,159	152,080	41,681
Community and economic development .....	388,552	3,810	304
General government .....	332,083	12,779	
Debt service .....	971,366		846
Capital projects .....	<u>2,435,130</u>		
Total governmental activities	<u>6,460,639</u>	<u>573,624</u>	<u>561,448</u>
Business type activities:			
Water .....	879,092	921,235	
Sewer .....	<u>670,370</u>	<u>686,495</u>	
Total business type activities	<u>1,549,462</u>	<u>1,607,730</u>	
 TOTAL	 <u>\$8,010,101</u>	 <u>\$2,181,354</u>	 <u>\$ 561,448</u>
General receipts and transfers:			
Property and other city taxes levied for:			
General purposes .....			
Debt service .....			
Tax increment financing .....			
Local option sales tax .....			
Unrestricted investment earnings .....			
Unrestricted miscellaneous .....			
Sale of assets .....			
Operating transfers .....			
Total general receipts and transfers			
CHANGE IN CASH BASIS NET ASSETS ....			
CASH BASIS NET ASSETS -			
BEGINNING OF YEAR .....			
CASH BASIS NET ASSETS - END OF YEAR			
CASH BASIS NET ASSETS:			
Restricted, expendable for:			
Urban renewal purposes .....			
Community betterment .....			
Debt service .....			
Capital projects .....			
Sewer improvement and replacement ...			
Other purposes .....			
Unrestricted .....			
TOTAL CASH BASIS NET ASSETS			

Exhibit A

Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
\$ 2,450	\$ (786,174)		\$ (786,174)
50,236	(29,417)		(29,417)
	(15,500)		(15,500)
6,660	(325,738)		(325,738)
100,463	(283,975)		(283,975)
	(319,304)		(319,304)
	(970,520)		(970,520)
379,015	(2,056,115)		(2,056,115)
<u>538,824</u>	<u>(4,786,743)</u>		<u>(4,786,743)</u>
		\$ 42,143	42,143
		16,125	16,125
		<u>58,268</u>	<u>58,268</u>
<u>\$ 538,824</u>	<u>(4,786,743)</u>	<u>58,268</u>	<u>(4,728,475)</u>
	1,350,656		1,350,656
	182,968		182,968
	1,750,174		1,750,174
	517,379		517,379
	24,595	15,317	39,912
	33,377		33,377
	40,728		40,728
	42,334	(42,334)	
	<u>3,942,211</u>	<u>(27,017)</u>	<u>3,915,194</u>
	(844,532)	31,251	(813,281)
	<u>4,320,693</u>	<u>1,855,321</u>	<u>6,176,014</u>
	<u>\$ 3,476,161</u>	<u>\$1,886,572</u>	<u>\$ 5,362,733</u>
	\$ 270,734		\$ 270,734
	412,801		412,801
	841	\$ 12,301	13,142
	1,393,591		1,393,591
		171,750	171,750
	387,727	50,579	438,306
	<u>1,010,467</u>	<u>1,651,942</u>	<u>2,662,409</u>
	<u>\$ 3,476,161</u>	<u>\$1,886,572</u>	<u>\$ 5,362,733</u>

See Notes to Financial Statements

CITY OF SHELDON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax .....	\$ 870,164		
Tax increment financing .....		\$1,750,174	
Other city taxes .....	149,570		\$ 517,379
Licenses and permits .....	12,173		
Use of money and property .....	92,839	5,075	2,873
Intergovernmental .....	96,086		
Charges for service .....	377,538		
Special assessments .....	401		
Miscellaneous .....	<u>147,891</u>	<u>2,100</u>	<u>2,716</u>
TOTAL RECEIPTS	<u>1,746,662</u>	<u>1,757,349</u>	<u>522,968</u>
DISBURSEMENTS:			
Public safety .....	890,054		
Public works .....	132,181		
Health and social services .....	15,500		
Culture and recreation .....	464,570		
Community and economic development .....	97,814	205,010	26,688
General government .....	193,096		116,797
Debt service .....		333,250	147,198
Capital projects .....		<u>10,000</u>	<u>227,192</u>
TOTAL DISBURSEMENTS	<u>1,793,215</u>	<u>548,260</u>	<u>517,875</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(46,553)</u>	<u>1,209,089</u>	<u>5,093</u>
OTHER FINANCING SOURCES:			
Operating transfers in .....	74,500		
Operating transfers out .....		(1,141,575)	(101,736)
Proceeds - sale of assets .....			
TOTAL OTHER FINANCING SOURCES (USES)	<u>74,500</u>	<u>(1,141,575)</u>	<u>(101,736)</u>
NET CHANGE IN CASH BALANCES	27,947	67,514	(96,643)
CASH BALANCES - BEGINNING OF YEAR .....	<u>738,269</u>	<u>203,220</u>	<u>509,444</u>
CASH BALANCES - END OF YEAR	<u>\$ 766,216</u>	<u>\$ 270,734</u>	<u>\$ 412,801</u>

## Exhibit B

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 179,105		\$ 320,401	\$1,369,670
			1,750,174
3,863		10,521	681,333
			12,173
846	\$ 11,018	1,679	114,330
	279,184	553,954	929,224
			377,538
			401
	99,431	4,959	257,097
<u>183,814</u>	<u>389,633</u>	<u>891,514</u>	<u>5,491,940</u>
		226,207	1,116,261
		573,905	706,086
			15,500
		63,344	527,914
		59,040	388,552
		22,600	332,493
490,918			971,366
	2,197,938		2,435,130
<u>490,918</u>	<u>2,197,938</u>	<u>945,096</u>	<u>6,493,302</u>
<u>(307,104)</u>	<u>(1,808,305)</u>	<u>(53,582)</u>	<u>(1,001,362)</u>
306,575	883,439	84,736	1,349,250
		(63,605)	(1,306,916)
	40,728		40,728
<u>306,575</u>	<u>924,167</u>	<u>21,131</u>	<u>83,062</u>
(529)	(884,138)	(32,451)	(918,300)
<u>1,370</u>	<u>2,277,729</u>	<u>420,178</u>	<u>4,150,210</u>
<u>\$ 841</u>	<u>\$1,393,591</u>	<u>\$ 387,727</u>	<u>\$3,231,910</u>

CITY OF SHELDON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS - Continued  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	Tax Increment <u>Financing</u>	Local Option <u>Sales Tax</u>
CASH BASIS FUND BALANCES:			
Restricted for:			
Urban renewal purposes .....		\$ 270,734	
Community betterment .....			\$ 412,801
Debt service .....			
Capital projects .....			
Community and economic development .....			
Employee benefits .....			
Streets .....			
Police purposes .....			
Committed for:			
Library purposes .....	\$ 30,960		
Airport purposes .....	173,712		
Park purposes .....	24,976		
Museum purposes .....	79,501		
Assigned for:			
Equipment purchases .....	75,215		
Public safety purposes .....	304,507		
Recreation trails maintenance .....	61,824		
Cemetery purposes .....	5,000		
Unassigned .....	<u>10,521</u>	<u>          </u>	<u>          </u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 766,216</u>	<u>\$ 270,734</u>	<u>\$ 412,801</u>

Exhibit B

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
			\$ 270,734
			412,801
\$ 841			841
	\$1,393,591		1,393,591
		\$ 158,508	158,508
		42,347	42,347
		180,952	180,952
		5,920	5,920
			30,960
			173,712
			24,976
			79,501
			75,215
			304,507
			61,824
			5,000
			10,521
<u>\$ 841</u>	<u>\$1,393,591</u>	<u>\$ 387,727</u>	<u>\$3,231,910</u>

CITY OF SHELDON  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND  
 NET ASSETS - GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

TOTAL GOVERNMENTAL FUNDS CASH BALANCES PER EXHIBIT B ..... \$3,231,910

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A  
 portion of the assets of the internal service fund are included in governmental  
 activities in the Statement of Net Assets. .... 244,251

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A \$3,476,161

NET CHANGE IN CASH BALANCES PER EXHIBIT B ..... (918,300)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A  
 portion of the change in net assets of the internal service fund is reported with  
 governmental activities in the Statement of Net Assets. .... 73,768

CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL  
 ACTIVITIES PER EXHIBIT A \$ (844,532)

CITY OF SHELDON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
OPERATING RECEIPTS:				
Charges for services .....	\$ 876,830	\$663,713	\$1,540,543	
Reimbursements from operating funds ..				\$468,960
Reimbursements from employees and insurance.....				69,398
Miscellaneous .....	<u>29,138</u>	<u>7,514</u>	<u>36,652</u>	
TOTAL OPERATING RECEIPTS	<u>905,968</u>	<u>671,227</u>	<u>1,577,195</u>	<u>538,358</u>
OPERATING DISBURSEMENTS:				
Business type activities:				
Cost of sales and services .....	658,427	556,468	1,214,895	
Insurance charges and claims .....				<u>407,146</u>
TOTAL OPERATING DISBURSEMENTS	<u>658,427</u>	<u>556,468</u>	<u>1,214,895</u>	<u>407,146</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>247,541</u>	<u>114,759</u>	<u>362,300</u>	<u>131,212</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments .....	10,630	2,924	13,554	4,005
Purchase of capital assets .....	(58,716)	(73,307)	(132,023)	
Debt service payments:				
Revenue note principal .....	(115,535)	(42,000)	(157,535)	
Revenue note interest .....	<u>(60,990)</u>	<u>(13,170)</u>	<u>(74,160)</u>	
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>(224,611)</u>	<u>(125,553)</u>	<u>(350,164)</u>	<u>4,005</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	22,930	(10,794)	12,136	135,217
OPERATING TRANSFERS OUT .....	<u>(21,167)</u>	<u>(21,167)</u>	<u>(42,334)</u>	
NET CHANGE IN CASH BALANCES	1,763	(31,961)	(30,198)	135,217
CASH BALANCES - BEGINNING OF YEAR	<u>1,207,974</u>	<u>480,219</u>	<u>1,688,193</u>	<u>337,611</u>
CASH BALANCES - END OF YEAR	<u>\$1,209,737</u>	<u>\$448,258</u>	<u>\$1,657,995</u>	<u>\$472,828</u>

CITY OF SHELDON  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES - PROPRIETARY FUNDS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
CASH BASIS FUND BALANCES:				
Restricted, expendable for:				
Revenue note retirement .....		\$ 12,301	\$ 12,301	
Sewer improvement .....		90,000	90,000	
Sewer replacement .....		81,750	81,750	
Water deposits .....	\$ 50,579		50,579	
Unrestricted .....	<u>1,159,158</u>	<u>264,207</u>	<u>1,423,365</u>	<u>\$472,828</u>
 TOTAL CASH BASIS FUND BALANCES	 <u>\$1,209,737</u>	 <u>\$448,258</u>	 <u>\$1,657,995</u>	 <u>\$472,828</u>

CITY OF SHELDON  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND  
 NET ASSETS - ENTERPRISE FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

TOTAL ENTERPRISE FUNDS CASH BALANCES PER EXHIBIT D ..... \$1,657,995

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A  
 portion of the assets of the internal service fund are included in business type  
 activities in the Statement of Net Assets. .... 228,577

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$1,886,572

NET CHANGE IN CASH BALANCES - ENTERPRISE FUNDS PER EXHIBIT D . \$ (30,198)

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds. A  
 portion of the change in net assets of the internal service fund is reported with  
 business type activities in the Statement of Net Assets. .... 61,449

CHANGE IN CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES  
 PER EXHIBIT A \$ 31,251

CITY OF SHELDON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	Agency Cafeteria <u>Plan</u>
CASH BALANCE - BEGINNING OF YEAR .....	\$ (19)
RECEIPTS:	
Contributions .....	13,500
DISBURSEMENTS:	
Cafeteria plan benefits paid .....	<u>(13,553)</u>
CASH BALANCE - END OF YEAR	<u><u>\$ (72)</u></u>

CITY OF SHELDON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sheldon is a political subdivision of the State of Iowa located in O'Brien and Sioux Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Sheldon provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water and sewer utilities services for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. It was determined that the City has no component units.

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments.

**B. Basis of Presentation**

Government-wide Financial Statement - The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets - Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

*The General Fund* is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue:*

*The Tax Increment Financing Fund* is used to account for receipts from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* is used to account for the receipts from the tax authorized by referendum and used for property tax relief and community betterment.

*The Debt Service Fund* is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

*Enterprise:*

*The Water Fund* is used to account for the operation and maintenance of the City's water system.

*The Sewer Fund* is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following funds:

*Proprietary Fund* - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

*Fiduciary Fund* - Agency Fund is used to account for assets held by the City as an agent for individuals.

### **C. Measurement Focus and Basis of Accounting**

The City of Sheldon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

### **D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purposes unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

### **E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information.

### **F. Subsequent Events**

Subsequent events were evaluated by management for disclosure up to the date of the auditors' report, which is the date the financial statements were available to be issued.

## 2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2012 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2012:

Cash on hand .....	\$ 160
Demand deposits .....	80,879
Certificates of deposit/savings accounts .....	<u>5,281,622</u>
	<u>\$5,362,661</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

## 3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's long-term debt are as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Tax Increment Financing Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 440,000	\$133,165	\$130,000	\$16,823	\$ 235,000	\$ 98,525
2014	450,000	123,585	135,000	11,622	245,000	88,773
2015	460,000	111,460	140,000	6,020	255,000	78,360
2016	475,000	97,205			265,000	67,267
2017	495,000	80,648			280,000	55,475
2018-2021	<u>1,695,000</u>	<u>146,515</u>	<u>          </u>	<u>          </u>	<u>915,000</u>	<u>87,610</u>
Total	<u>\$4,015,000</u>	<u>\$692,578</u>	<u>\$405,000</u>	<u>\$34,465</u>	<u>\$2,195,000</u>	<u>\$476,010</u>

### Governmental Activities - Continued

Year Ending June 30,	USDA Airport Loan		Total	
	Principal	Interest	Principal	Interest
2013	\$ 21,362	\$11,066	\$ 826,362	\$ 259,579
2014	22,377	10,051	852,377	234,031
2015	23,440	8,988	878,440	204,828
2016	24,553	7,875	764,553	172,347
2017	25,720	6,708	800,720	142,831
2018-2021	<u>115,509</u>	<u>14,022</u>	<u>2,725,509</u>	<u>248,147</u>
Total	<u>\$232,961</u>	<u>\$58,710</u>	<u>\$6,847,961</u>	<u>\$1,261,763</u>

### Revenue Notes

Year Ending June 30,	Sewer Revenue Capital Loan Notes		Water Revenue Capital Loan Notes		Total Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 43,000	\$11,910	\$ 113,584	\$ 33,806	\$ 156,584	\$ 45,716
2014	45,000	10,620	118,754	30,969	163,754	41,589
2015	47,000	9,270	124,266	28,002	171,266	37,272
2016	49,000	7,860	129,963	24,897	178,963	32,757
2017	50,000	6,390	136,138	21,650	186,138	28,040
2018-2022	<u>163,000</u>	<u>9,930</u>	<u>773,995</u>	<u>54,054</u>	<u>936,995</u>	<u>63,984</u>
Total	<u>\$397,000</u>	<u>\$55,980</u>	<u>\$1,396,700</u>	<u>\$193,378</u>	<u>\$1,793,700</u>	<u>\$249,358</u>

### General Obligation Bonds/Notes

The City's total general obligation bonds/notes at June 30, 2012 were \$4,015,000.

### Sales and Service Tax Bonds

On October 3, 1995, the residents of the City approved a local option sales tax at the rate of 1%. The revenues must be applied 37.5% for property tax relief and 62.5% for community betterment. The City has issued sales and service tax bonds to defray the cost of the Community Services Center project in accordance with Chapter 422B. The bonds are payable from 62.5% of the local option sales tax collected. If the 62.5% is insufficient to pay the bonds and interest, the shortfall may be paid from debt service. Therefore, the bonds are a general obligation of the City.

### Tax Increment Financing Revenue Bonds

The City issued \$3,045,000 of urban renewal revenue annual appropriation capital loan notes in October 2007 for the purpose of defraying a portion of the costs of an aquatic center within the urban renewal district. The bonds are payable solely from the tax increment financing (TIF) receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. The bonds are subject at all times to non-appropriation by the City Council. Therefore, only the principal and

interest appropriated by the Council is subject to the constitutional debt limit of the City. The amount appropriated for the fiscal year ending June 30, 2013 is \$333,525 including principal and interest. For the current year, principal and interest paid and TIF receipts were \$332,750 and \$1,750,174, respectively.

Under the terms of the bonds, the City is required to hold 10% of the bond proceeds in a reserve fund. The balance in this fund, including interest, is \$330,598 at June 30, 2012. This fund is included in the tax increment financing fund.

### **Revenue Notes**

The City has pledged future wastewater customer receipts, net of specific operating disbursements, to repay the \$814,000 sewer revenue capital loan notes issued in September 1999. Proceeds from the notes provided financing for the construction of wastewater improvements. The notes are payable solely from wastewater customer net receipts and are payable through 2020. Annual principal and interest payments are expected to require less than 49% of net revenues. The total principal and interest payments remaining to be paid on the notes are \$452,980. For the current year, principal and interest paid and total customer net receipts were \$55,170 and \$114,759, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) Additional monthly transfers of \$2,500 to a sewer improvement account shall be made until a balance of \$90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.
- (E) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2012, the City was in compliance with all the sewer revenue notes provisions.

The City has also pledged future water customer receipts, net of specific operating expenses, to repay the \$1,900,000 water revenue capital loan notes issued in March 2007. Proceeds from the notes provided financing for the prepayment of the City's obligation to Lewis and Clark Regional Water System. The notes are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments are expected to require less than 72% of net revenues. The total principal and interest payments remaining to be paid on the notes are \$1,590,078. For the current year, principal and interest paid and total customer net receipts were \$176,525 and \$247,541, respectively.

The notes were purchased by a local bank in participation with three other local banks.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate water reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

The purchaser of the notes has waived provisions (B) and (C). The City was in compliance with the other water revenue notes provisions during the year ended June 30, 2012.

#### **Airport Loan**

This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of \$232,961 as of June 30, 2012, which will be paid from the general fund. The notes call for annual payments of \$32,428 including interest at 4.75%.

#### **4. DUE FROM SHELDON CHAMBER AND DEVELOPMENT CORPORATION**

The City has granted the Sheldon Community and Development Corporation (SCDC) land and also financed SCDC's purchase of land. The land is being held for development and resale. The SCDC has agreed to pay a portion of the sales price back to the City as the land is sold.

## 5. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 26,000
	Road use tax	6,166
	Proprietary:	
	Enterprise:	
	Water	21,167
	Sewer	<u>21,167</u>
		<u>74,500</u>
Debt Service	Special Revenue:	
	Tax increment financing	<u>306,575</u>
Capital Projects	Special Revenue:	
	Tax increment financing	835,000
	Local option sales tax	15,000
	LMI	25,000
	FEMA	<u>8,439</u>
		<u>883,439</u>
Special Revenue:	Special Revenue:	
Employee benefits	Local option sales tax	<u>60,736</u>
Special Revenue:	Special Revenue:	
Housing Rehab	LMI	<u>24,000</u>
TOTAL INTERFUND TRANSFERS		<u>\$1,349,250</u>

## 6. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$118,040, \$103,234, and \$94,238, respectively, equal to the required contributions for each year.

## 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits to active and retired employees and their eligible dependents. There are 26 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

### Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the city and plan members are \$604 for single coverage and \$1,578 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the city contributed \$468,960 and plan members eligible for benefits contributed \$7,597 to the plan.

## 8. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. In addition, employees over age 55 have accumulated earned but unused sick pay which is payable upon retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2012 is as follows:

### Governmental activities:

General fund .....	\$ 81,280
Special revenue:	
Road use tax .....	<u>17,482</u>
Total governmental activities	<u>98,762</u>

### Business type activities:

Proprietary:	
Enterprise:	
Water .....	25,429
Sewer .....	<u>19,628</u>
Total business type activities	<u>45,057</u>

TOTAL	<u>\$143,819</u>
-------	------------------

## 9. HEALTH CARE FACILITY REVENUE BONDS AND HOUSING REVENUE NOTES

The City has issued a total of \$11,880,000 of Health Care Facility Revenue Bonds and Housing Revenue Notes under the provisions of Chapter 419 of the Code of Iowa, of which \$6,208,438 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

## 10. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling \$121,470 during the year ended June 30, 2012. See item 12-II-D in the Schedule of Findings.

## 11. CONTRACT AND OTHER COMMITMENTS

The City has entered into construction contracts for various projects. A summary of the contracts is as follows:

Contract total .....	\$1,374,694
Paid as of June 30, 2012 .....	<u>1,191,842</u>
Balance to complete	<u>\$ 182,852</u>

The City has also entered into several tax increment financing rebate agreements with local businesses. The City has agreed to rebate the taxes paid by the business over a period of years. The City will expense the rebates as the taxes are collected and returned to the businesses.

## 12. SUBSEQUENT EVENTS

Subsequent to June 30, 2012, the City entered into various construction projects that totaled \$789,435.

## 13. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$113,008.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City's plan has established a specific stop-loss amount of \$20,000 and an aggregate stop-loss of 125% of expected claims for the year. The City purchases commercial insurance for claims in excess of coverage provided.

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **14. COLLECTIVE BARGAINING AGREEMENT**

All employees, except for the office personnel and management, are covered by collective bargaining agreements which expire June 30, 2014.

## **SUPPLEMENTARY INFORMATION**

CITY OF SHELDON  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
ALL NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Revenue Funds</u>		
	<u>LHAP Reuse</u>	<u>Employee Benefits</u>	<u>Road Use Tax</u>
RECEIPTS:			
Property tax .....		\$320,401	
Other city taxes .....		10,521	
Use of money and property .....	\$ 304	193	
Intergovernmental .....			\$492,087
Miscellaneous .....		85	
TOTAL RECEIPTS	<u>304</u>	<u>331,200</u>	<u>492,087</u>
DISBURSEMENTS:			
Public safety .....		226,207	
Public works .....		142,952	430,953
Culture and recreation .....		63,344	
Community and economic development .....			
General government .....		22,600	
TOTAL DISBURSEMENTS		<u>455,103</u>	<u>430,953</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>304</u>	<u>(123,903)</u>	<u>61,134</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....		60,736	
Operating transfers out .....			(6,166)
TOTAL OTHER FINANCING SOURCES (USES)		<u>60,736</u>	<u>(6,166)</u>
NET CHANGE IN CASH BALANCES	304	(63,167)	54,968
CASH BALANCES - BEGINNING OF YEAR .....	<u>46,763</u>	<u>105,514</u>	<u>125,984</u>
CASH BALANCES - END OF YEAR	<u>\$ 47,067</u>	<u>\$ 42,347</u>	<u>\$180,952</u>
CASH BASIS FUND BALANCES:			
Restricted for:			
Community and economic development .....	\$ 47,067		
Employee benefits .....		\$ 42,347	
Streets .....			\$180,952
Police purposes .....			
TOTAL CASH BASIS FUND BALANCES	<u>\$ 47,067</u>	<u>\$ 42,347</u>	<u>\$180,952</u>

## Schedule 1

<u>Special Revenue Funds</u>				
<u>LMI</u>	<u>Housing Rehab</u>	<u>Seizure</u>	<u>FEMA</u>	<u>Total</u>
				\$320,401
				10,521
\$ 1,182				1,679
	\$ 61,867			553,954
	4,874			4,959
<u>1,182</u>	<u>66,741</u>			<u>891,514</u>
				226,207
				573,905
				63,344
	59,040			59,040
				22,600
	<u>59,040</u>			<u>945,096</u>
<u>1,182</u>	<u>7,701</u>			<u>(53,582)</u>
	24,000			84,736
<u>(49,000)</u>			<u>\$ (8,439)</u>	<u>(63,605)</u>
<u>(49,000)</u>	<u>24,000</u>		<u>(8,439)</u>	<u>21,131</u>
(47,818)	31,701		(8,439)	(32,451)
<u>128,020</u>	<u>(462)</u>	<u>\$ 5,920</u>	<u>8,439</u>	<u>420,178</u>
<u>\$ 80,202</u>	<u>\$ 31,239</u>	<u>\$ 5,920</u>	<u>\$</u>	<u>\$387,727</u>
\$ 80,202	\$ 31,239			\$158,508
				42,347
		\$ 5,920		180,952
				5,920
<u>\$ 80,202</u>	<u>\$ 31,239</u>	<u>\$ 5,920</u>	<u>\$</u>	<u>\$387,727</u>

CITY OF SHELDON  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Amount Interest Rates</u>	<u>Originally Issued</u>	<u>Final Due Date</u>
<u>GOVERNMENTAL ACTIVITIES:</u>				
General Obligation Bonds/Notes:				
Capital loan notes, series 2008	4-01-2008	3.05 - 3.65%	\$1,860,000	6-01-2018
Taxable capital loan notes, series 2011A	1-31-2011	1.85 - 4.30%	2,200,000	6-01-2019
Capital loans notes, series 2011B	1-31-2011	3.10 - 3.60%	1,020,000	6-01-2021
Total General Obligation Bonds/Notes				
Tax Increment Financing Bonds:				
Urban renewal revenue annual appropriation capital loan notes	10-19-2007	4.15 - 4.75%	3,045,000	6-01-2020
Sales and Service Tax Bonds:				
Refunding bonds	5-01-2003	4.00 - 4.30%	1,415,000	6-01-2015
Other Long-Term Debt:				
USDA airport loan	6-06-2001	4.75%	400,000	6-05-2021
TOTAL GOVERNMENTAL ACTIVITIES				
<u>BUSINESS TYPE ACTIVITIES:</u>				
Revenue Notes:				
Sewer revenue capital loan notes	9-15-1999	3.00%	\$ 814,000	6-01-2020
Water revenue capital loan notes	3-25-2007	2.47%	1,900,000	6-01-2022
TOTAL BUSINESS TYPE ACTIVITIES				

## Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$1,075,000		\$280,000	\$ 795,000	\$ 35,055
2,200,000			2,200,000	95,629
<u>1,020,000</u>	<u>          </u>	<u>          </u>	<u>1,020,000</u>	<u>46,306</u>
<u>4,295,000</u>	<u>          </u>	<u>280,000</u>	<u>4,015,000</u>	<u>176,990</u>
 <u>2,420,000</u>	 <u>          </u>	 <u>225,000</u>	 <u>2,195,000</u>	 <u>107,750</u>
 <u>530,000</u>	 <u>          </u>	 <u>125,000</u>	 <u>405,000</u>	 <u>21,698</u>
 <u>253,354</u>	 <u>          </u>	 <u>20,393</u>	 <u>232,961</u>	 <u>12,035</u>
 <u>\$7,498,354</u>	 <u>\$          </u>	 <u>\$650,393</u>	 <u>\$6,847,961</u>	 <u>\$318,473</u>
\$ 439,000		\$ 42,000	\$ 397,000	\$ 13,170
<u>1,512,235</u>	<u>          </u>	<u>115,535</u>	<u>1,396,700</u>	<u>60,990</u>
 <u>\$1,951,235</u>	 <u>\$          </u>	 <u>\$157,535</u>	 <u>\$1,793,700</u>	 <u>\$ 74,160</u>

CITY OF SHELDON  
BOND AND NOTE MATURITIES  
JUNE 30, 2012

General Obligation Bonds/Notes

Year Ending June 30,	Capital Loan Notes Issued 4-1-2008		Taxable Capital Loan Notes Issued 1-31-2011		Capital Loan Notes Issued 1-31-2011		General Obligation Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2013	3.05%	\$ 120,000	1.85%	\$ 320,000			\$ 440,000
2014	3.20%	125,000	2.50%	325,000			450,000
2015	3.35%	130,000	3.00%	330,000			460,000
2016	3.45%	135,000	3.50%	340,000			475,000
2017	3.55%	140,000	3.85%	355,000			495,000
2018	3.65%	145,000	4.10%	365,000			510,000
2019			4.30%	165,000	3.10%	\$ 215,000	380,000
2020					3.35%	395,000	395,000
2021					3.60%	410,000	410,000
		<u>\$ 795,000</u>		<u>\$ 2,200,000</u>		<u>\$ 1,020,000</u>	<u>\$ 4,015,000</u>

Other Governmental Activities Bonds/Notes

Year Ending June 30,	Urban Renewal Revenue Annual Appropriation Capital Loan Notes Issued 10-19-07		Sales and Service Tax Refunding Bonds Issued 5-1-2003		USDA Airport Loan Issued 6-6-2001		Other Governmental Activities Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2013	4.15%	\$ 235,000	4.00%	\$ 130,000	4.75%	\$ 21,362	\$ 386,362
2014	4.25%	245,000	4.15%	135,000	4.75%	22,377	402,377
2015	4.35%	255,000	4.30%	140,000	4.75%	23,440	418,440
2016	4.45%	265,000			4.75%	24,553	289,553
2017	4.50%	280,000			4.75%	25,720	305,720
2018	4.60%	290,000			4.75%	26,942	316,942
2019	4.70%	305,000			4.75%	28,221	333,221
2020	4.75%	320,000			4.75%	29,562	349,562
2021					4.75%	30,784	30,784
		<u>\$ 2,195,000</u>		<u>\$ 405,000</u>		<u>\$ 232,961</u>	<u>\$ 2,832,961</u>

CITY OF SHELDON  
BOND AND NOTE MATURITIES - Continued  
JUNE 30, 2012

Revenue Notes

Year Ending June 30,	Water Revenue Capital Loan Notes Issued 3-25-2007		Sewer Revenue Capital Loan Notes Issued 9-15-1999		Revenue Notes Total
	Interest Rate	Amount	Interest Rate	Amount	
2013	2.47%	\$ 113,584	3.00%	\$ 43,000	\$ 156,584
2014	2.47%	118,754	3.00%	45,000	163,754
2015	2.47%	124,266	3.00%	47,000	171,266
2016	2.47%	129,963	3.00%	49,000	178,963
2017	2.47%	136,138	3.00%	50,000	186,138
2018	2.47%	142,390	3.00%	52,000	194,390
2019	2.47%	149,001	3.00%	54,000	203,001
2020	2.47%	155,888	3.00%	57,000	212,888
2021	2.47%	161,180			161,180
2022	2.47%	165,536			165,536
		<u>\$ 1,396,700</u>		<u>\$ 397,000</u>	<u>\$ 1,793,700</u>

## OTHER INFORMATION

CITY OF SHELDON  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
OTHER INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes .....	\$1,369,670		\$1,369,670
Other city taxes .....	681,333		681,333
Tax increment financing revenues .....	1,750,174		1,750,174
Licenses and permits .....	12,173		12,173
Use of money and property .....	114,330	\$ 17,559	131,889
Intergovernmental .....	929,224		929,224
Charges for services .....	377,538	2,009,503	2,387,041
Special assessments .....	401		401
Miscellaneous .....	<u>257,097</u>	<u>119,550</u>	<u>376,647</u>
TOTAL RECEIPTS	<u>5,491,940</u>	<u>2,146,612</u>	<u>7,638,552</u>
DISBURSEMENTS:			
Public safety .....	1,116,261		1,116,261
Public works .....	706,086		706,086
Health and social services .....	15,500		15,500
Culture and recreation .....	527,914		527,914
Community and economic development .....	388,552		388,552
General government .....	332,493		332,493
Debt service .....	971,366		971,366
Capital projects .....	2,435,130		2,435,130
Business type .....		1,578,613	1,578,613
Non-program .....		<u>420,699</u>	<u>420,699</u>
TOTAL DISBURSEMENTS	<u>6,493,302</u>	<u>1,999,312</u>	<u>8,492,614</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,001,362)	147,300	(854,062)
OTHER FINANCING SOURCES (USES):			
Operating transfer in .....	1,349,250		1,349,250
Operating transfer out .....	(1,306,916)	(42,334)	(1,349,250)
Proceeds - sale of assets .....	<u>40,728</u>		<u>40,728</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>83,062</u>	<u>(42,334)</u>	<u>40,728</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	(918,300)	104,966	(813,334)
BALANCE - BEGINNING OF YEAR .....	<u>4,150,210</u>	<u>2,025,785</u>	<u>6,175,995</u>
BALANCE - END OF YEAR	<u>\$3,231,910</u>	<u>\$2,130,751</u>	<u>\$5,362,661</u>

## Schedule 4

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$1,369,670	\$1,362,838	\$ 1,362,838	\$ 6,832
	681,333	590,176	611,176	70,157
	1,750,174	1,920,602	1,920,602	(170,428)
	12,173	12,000	12,000	173
\$ 4,005	127,884	124,050	124,050	3,834
	929,224	2,028,313	2,028,313	(1,099,089)
468,960	1,918,081	1,906,284	1,906,284	11,797
	401	394	394	7
<u>82,898</u>	<u>293,749</u>	<u>748,805</u>	<u>748,805</u>	<u>(455,056)</u>
<u>555,863</u>	<u>7,082,689</u>	<u>8,693,462</u>	<u>8,714,462</u>	<u>(1,631,773)</u>
	1,116,261	978,049	1,170,399	54,138
	706,086	1,194,532	1,194,532	488,446
	15,500	18,500	18,500	3,000
	527,914	573,315	573,315	45,401
	388,552	674,689	695,689	307,137
	332,493	345,219	345,219	12,726
	971,366	972,866	972,866	1,500
	2,435,130	3,546,000	3,743,505	1,308,375
	1,578,613	2,112,779	2,112,779	534,166
<u>420,699</u>	<u>8,071,915</u>	<u>10,415,949</u>	<u>10,826,804</u>	<u>2,754,889</u>
135,164	(989,226)	(1,722,487)	(2,112,342)	1,123,116
	1,349,250	1,646,403	1,646,403	(297,153)
	(1,349,250)	(1,646,403)	(1,646,403)	297,153
	<u>40,728</u>	<u>100,000</u>	<u>100,000</u>	<u>(59,272)</u>
	<u>40,728</u>	<u>100,000</u>	<u>100,000</u>	<u>(59,272)</u>
135,164	(948,498)	(1,622,487)	(2,012,342)	1,063,844
<u>337,592</u>	<u>5,838,403</u>	<u>5,914,151</u>	<u>5,914,151</u>	<u>(75,748)</u>
<u>\$472,756</u>	<u>\$4,889,905</u>	<u>\$ 4,291,664</u>	<u>\$ 3,901,809</u>	<u>\$ 988,096</u>

CITY OF SHELDON  
NOTES TO SCHEDULE 4 - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2012

The budgetary comparison is presented in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$410,855. This budget amendment is reflected in the final budgeted amounts.

CITY OF SHELDON  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST EIGHT YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
RECEIPTS:				
Property tax .....	\$1,369,670	\$1,204,482	\$1,129,515	\$1,101,847
Tax increment financing .....	1,750,174	2,215,974	2,063,537	1,849,357
Other City taxes .....	681,333	638,549	526,941	683,965
Licenses and permits .....	12,173	11,975	11,739	10,757
Use of money and property .....	114,330	117,228	120,068	159,167
Intergovernmental .....	929,224	705,140	960,474	512,412
Charges for services .....	377,538	395,888	540,672	626,339
Special assessments .....	401	14,998		1,815
Miscellaneous .....	<u>257,097</u>	<u>125,529</u>	<u>251,783</u>	<u>164,289</u>
 TOTAL RECEIPTS	 <u>\$5,491,940</u>	 <u>\$5,429,763</u>	 <u>\$5,604,729</u>	 <u>\$5,109,948</u>
 DISBURSEMENTS:				
Public safety .....	\$1,116,261	\$ 831,273	\$1,003,796	\$ 964,191
Public works .....	706,086	880,355	1,199,692	955,752
Health and social services .....	15,500	15,500	15,500	15,500
Culture and recreation .....	527,914	464,512	492,326	532,690
Community and economic development .....	388,552	356,868	453,534	368,431
General government .....	332,493	342,258	374,716	324,849
Debt service .....	971,366	881,645	1,586,968	1,128,038
Capital projects .....	<u>2,435,130</u>	<u>3,370,859</u>	<u>1,091,594</u>	<u>1,951,447</u>
 TOTAL DISBURSEMENTS	 <u>\$6,493,302</u>	 <u>\$7,143,270</u>	 <u>\$6,218,126</u>	 <u>\$6,240,898</u>

## Schedule 5

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$1,000,580	\$1,088,289	\$1,163,190	\$1,380,145
1,381,795	1,215,979	1,146,197	1,010,582
591,117	519,010	455,606	461,224
11,838	41,560	10,685	10,473
204,717	143,511	123,571	104,066
1,242,981	1,380,683	520,969	620,081
490,988	480,405	476,627	467,448
109	833	653	3,920
<u>218,222</u>	<u>238,533</u>	<u>126,546</u>	<u>73,485</u>
<u>\$5,142,347</u>	<u>\$5,108,803</u>	<u>\$4,024,044</u>	<u>\$4,131,424</u>
\$ 765,503	\$1,011,219	\$ 668,867	\$ 675,878
1,193,661	862,975	811,163	794,134
371,462	500,724	428,609	385,817
309,073	837,469	146,387	161,755
318,461	337,527	319,084	521,762
1,340,354	699,461	781,458	1,166,454
<u>3,441,879</u>	<u>1,007,943</u>	<u>824,432</u>	<u>1,672,003</u>
<u>\$7,740,393</u>	<u>\$5,257,318</u>	<u>\$3,980,000</u>	<u>\$5,377,803</u>

CITY OF SHELDON  
CAPITAL ASSETS ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
GOVERNMENTAL ACTIVITIES				
COST OF CAPITAL ASSETS:				
Capital assets not being depreciated:				
Construction in progress .....	\$ 272,350	\$1,267,855		\$ 1,540,205
Land .....	<u>406,000</u>	<u>          </u>	<u>          </u>	<u>406,000</u>
Total capital assets not being depreciated	<u>678,350</u>	<u>1,267,855</u>	<u>          </u>	<u>1,946,205</u>
Capital assets being depreciated:				
Buildings and improvements .....	5,409,014			5,409,014
Aquatic Center .....	2,731,883			2,731,883
Equipment and vehicles .....	2,961,401	515,483	\$ (30,413)	3,446,471
Infrastructure .....	<u>9,720,707</u>	<u>762,525</u>	<u>          </u>	<u>10,483,232</u>
Total capital assets being depreciated	<u>20,823,005</u>	<u>1,278,008</u>	<u>(30,413)</u>	<u>22,070,600</u>
TOTAL COST OF CAPITAL ASSETS	<u>21,501,355</u>	<u>2,545,863</u>	<u>(30,413)</u>	<u>24,016,805</u>
ACCUMULATED DEPRECIATION:				
Building and improvements .....	1,843,968	129,638		1,973,606
Aquatic Center .....	318,720	109,275		427,995
Equipment and vehicles .....	1,902,571	203,036	(30,413)	2,075,194
Infrastructure .....	<u>4,664,569</u>	<u>333,329</u>	<u>          </u>	<u>4,997,898</u>
TOTAL ACCUMULATED DEPRECIATION	<u>8,729,828</u>	<u>775,278</u>	<u>(30,413)</u>	<u>9,474,693</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$12,771,527</u>	<u>\$1,770,585</u>	<u>\$          </u>	<u>\$14,542,112</u>

CITY OF SHELDON  
CAPITAL ASSETS ACTIVITY - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
BUSINESS TYPE ACTIVITIES				
COST OF CAPITAL ASSETS:				
Capital assets not being depreciated:				
Construction in progress .....	\$ 120,298	\$ (120,298)		
Land .....	84,390			\$ 84,390
Lewis and Clark water rights .....	<u>2,559,634</u>			<u>2,559,634</u>
Total capital assets not being depreciated	<u>2,764,322</u>	<u>(120,298)</u>		<u>2,644,024</u>
Capital assets being depreciated:				
Water and sewer plants .....	4,982,008	30,561		5,012,569
Equipment and vehicles .....	957,292	85,736		1,043,028
Infrastructure .....	<u>5,513,513</u>	<u>357,961</u>		<u>5,871,474</u>
Total capital assets being depreciated	<u>11,452,813</u>	<u>474,258</u>		<u>11,927,071</u>
TOTAL COST OF CAPITAL ASSETS	<u>14,217,135</u>	<u>353,960</u>		<u>14,571,095</u>
ACCUMULATED DEPRECIATION:				
Water and sewer plants .....	3,366,994	110,524		3,477,518
Equipment and vehicles .....	631,063	63,650		694,713
Infrastructure .....	<u>1,713,104</u>	<u>145,193</u>		<u>1,858,297</u>
TOTAL ACCUMULATED DEPRECIATION	<u>5,711,161</u>	<u>319,367</u>		<u>6,030,528</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS - NET	<u>\$ 8,505,974</u>	<u>\$ 34,593</u>	<u>\$</u>	<u>\$ 8,540,567</u>
Cost of loan fees .....	\$ 8,750			\$ 8,750
Less - accumulated depreciation .....	<u>5,177</u>	<u>\$ 438</u>		<u>5,615</u>
LOAN FEES - NET	<u>\$ 3,573</u>	<u>\$ (438)</u>	<u>\$</u>	<u>\$ 3,135</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 7, 2013. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; and therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

## Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Stave & Co., LLP*

January 7, 2013

CITY OF SHELDON  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Financial Statements**

**Internal control over Financial Reporting:**

No findings were noted.

**Instances of Non-Compliance:**

No findings were noted.

CITY OF SHELDON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Required Statutory Reporting**

12-II-A Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.

12-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

12-II-C Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

12-II-D Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Rensink, Council Member, Owner of Perspective Insurance	Insurance	\$116,797
Mark Postma, Council Member, Owner of Bubbles Professional Dry Cleaning and Laundry	Towel cleaning	82
Brad Hindt, Council Member, Owner of Downtown Hardware	Supplies	3,885
Dave Popkes, Council Member, Owner Dave's Appliance	Repairs	15
Greg Geels, Council Member, Owner of Vogel Paint and Glass, Inc.	Supplies	691

The transactions with Mr. Postma, Mr. Popkes, and Mr. Geels do not appear to be a conflict of interest since the total paid to each individual was less than \$1,500.

The transactions with Mr. Rensink do not appear to be a conflict of interest since they relate primarily to payment on the City's Iowa Community Assurance Pool (ICAP) insurance policy. The contract with ICAP was signed prior to Mr. Rensink being a council member and is therefore an exception under Chapter 362.5(7) of the Code of Iowa.

The transactions with Mr. Hindt may represent a conflict of interest since the total paid to his business was more than \$1,500 and competitive bidding was not utilized.

CITY OF SHELDON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

12-II-D Business Transactions - continued

Recommendation - The City should use the competitive bidding process when practicable.

Response - These transactions were for normal expenses. The City will monitor spending and use competitive bidding when practicable.

Conclusion - Response accepted.

12-II-E Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

12-II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

12-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

12-II-H Revenue Notes - No noncompliance with revenue note provisions were noted.

12-II-I Economic Development - We noted that the City paid the Sheldon Chamber and Development Corporation (SCDC) \$40,000 from tax increment financing revenues, \$94,970 from hotel/motel tax, and \$10,000 from local option sales tax.

In addition, we noted that the City paid the O'Brien County Economic Development Corporation \$5,503 from tax increment financing revenues.

It appears the City properly evaluated the public purpose and requires documentation of how the funds were used.